# REBORN WITH CREDIT

TRENT Sands

2nd Edition



# Reborn With Credit Revised and Expanded Second Edition

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### Reborn

#### With Credit

Revised and Expanded Second Edition

**Trent Sands** 



Breakout Productions
Port Townsend, Washington

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### Reborn With Credit, Revised and Expanded Second Edition

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## Introduction to the Second Edition

Many changes have taken place in the credit industry since the first edition of this book was written six years ago. Major changes in all aspects of the credit industry, from the credit bureaus, to the major banks, have altered the landscape that the credit applicant must navigate.

The thrust of this book was, and remains, to enable those who have bad credit to reenter the credit system for the proverbial "second chance," and secondly, to strip away the veil of secrecy that surrounds the credit bureaus. This enables the reader to become a smarter credit consumer and save money.

One major change has been consolidation in the credit industry. The credit reporting industry now consists of just three major bureaus, Experian, Trans Union and Equifax. As readers of the first edition know, your credit report is the single most important factor to obtaining any type of credit, and the terms on which that credit will be extended.

The credit bureaus are now the subject of new federal legislation that makes it easier for consumers to lodge disputes with the bureaus and have them resolved in the consumer's favor. Some states, such as Massachusetts, have passed tough new legislation regulating credit bureaus that goes far beyond the federal laws.

We will also see that your credit report is now much more widely circulated than it was six years ago, often without the consumer's knowledge. A new chapter will give additional information on how to effectively dispute negative and inaccurate entries on the credit report.

The Internet is now a source of up-to-date information on credit problems, which was not the case six years ago. In a new chapter which discusses Internet credit information (Chapter Nine), we will list some sites that are useful to credit consumers.

The new credit card superbanks, who do little else but issue and market credit cards nationwide, are voracious users of credit reports and a new tool called credit scoring. We will examine how these institutions use this tool to set credit limits and monitor customer accounts.

#### **Preface**

Each year, thousands of people find themselves unable to obtain credit because in the past they have had credit problems, or because they have never established credit. Most of the time these rejected people have no idea of what, if anything, they can do to either establish good credit or to remove bad credit. The reason for this is that the credit system is cloaked in secrecy, and the credit grantors want it to remain that way.

This book will lay out step-by-step what anyone must do to obtain the credit they deserve. Your previous credit situation makes no difference. Follow the methods outlined and you will shortly have the credit you need in life.

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#### **Chapter One**

#### **Credit Basics**

The credit system involves three principle groups. The first group consists of "creditors:" the financial institutions and stores that offer credit products to the public. These products range from department store charge cards to bankcards to home mortgages. The second group is the consumers or, in credit industry terms, the "applicants." Needless to say, this group is the key to the credit industry profits. The third group is the credit bureau network. They earn their money by selling their services to creditors.

The credit bureau acts like a referee in the credit system. Their job is to verify the information that is put onto a credit application. It was not always like this. There was a time when all creditors would contact directly any references listed on an application and confirm the details themselves. The creditor would call the applicant's employer, bank and landlord and ask each of them about their experiences with the applicant. In those days, the role of the credit bureau was much different than it is today.

Credit bureaus started as a way for local merchants to protect themselves from people who would open charge accounts and never pay back the money they owed. In the late 1950s, many local stores offered charge accounts to their regular customers. Generally, the customer would fill out a file card at the store listing his or her full name, birthdate, home address, telephone number and employer along with a local personal reference. This file card would go upstairs to the credit office and the store would call the applicant's employer and bank. Having obtained satisfactory verification, the applicant would then receive charging privileges at the store.

#### **Merchant Protection Associations**

Credit bureaus became a part of the picture when local merchants realized that in a given city it was the same small number of people who were not paying their accounts on time. At this time, local credit bureaus were called "Merchant Protection Associations," and the name was accurate. The names of deadbeats were kept on file at the MPA and whenever a person applied for credit, the merchant would make sure that the person was not on file with the MPA. So we can see that at the very beginning credit bureaus were designed to be just a negative database that the majority of people never had any contact with.

It didn't take long for merchants to see the other side to the local protection association. If having the names of bad credit risks enabled a store to increase profits by keeping losses to a minimum, what about increasing profits by doing business with good credit risks? By reporting the names of on-time payers to the local credit bureau, preferred customers could be contacted by merchants directly and offered charge accounts. The bureaus were cost effective for merchants because the

time consuming business of reference checking could be dispensed with entirely. The very fact that these people were on record at the MPA as good payers was proof enough to open a charge account. So here we have the beginnings of preapproved credit.

#### **National Credit Bureaus**

Merchant protection associations were still local operations, and a consumer who did not have good credit in one town could still get credit in another town. But big changes were underway. Larger credit bureaus started buying up smaller ones, and a massive switchover from paper records to computer records was occurring at the same time. In these early days, most computers were expensive mainframes, and this is the primary reason that the industry developed as it did.

Large mainframe computers could only be afforded by a few companies. An industry grew up that rented computer time to small organizations that could not afford their own computers. One such company that provided computing services to other firms was TRW.

TRW started to buy up many of the smaller credit bureaus and put on its network those that would not allow themselves to be purchased. The end result was one giant credit database. Local bureaus agreed to send copies of their records to TRW's central computer. In return, TRW provided information to the local bureaus on applicants the locals had no files on. For example, if a person moved into an area served by one of these local bureaus from another state, no local credit file would exist on that person. The local TRW-affiliated credit bureau would then call TRW with the particulars on this individual, and TRW would search its files for information. In a few days, this information would be relayed back to the local credit bu-

reau. This was the beginning of the nationwide credit reporting system we now have.

Another group was also getting into the credit bureau industry: the traditional investigative companies that worked for the insurance industry. These companies specialized in performing what can be called lifestyle reports on applicants for insurance. The largest of these companies is called Equifax. This company is based in Atlanta and has files on about forty million people.

At present, the major national credit bureaus are Experian (TRW's new name after being sold to a British firm), CBI/Equifax, and Trans Union Credit. Credit bureaus also have a trade association, known as Associated Credit Bureaus, or ACB. The addresses for the bureaus and ACB are:

Experian
National Consumer Assistance Center
PO Box 949
Allen, TX 75013-0949
1-800-EXPERIAN

Equifax Information Service Center PO Box 740241 Atlanta, GA 30374-0241

Trans Union Corporation Consumer Disclosure Center PO Box 390 Springfield, PA 19064-0390 1-800-888-4213

Associated Credit Bureaus 1090 Vermont Ave NW, Suite 200 Washington, DC 20005 202-371-0910

#### The Rise of the Bankcard

The use and availability of credit cards zoomed in the 1970s. This decade brought with it the general use bankcards such as VISA and MasterCard. Prior to this time a credit card was something most people thought of in connection with a department store or oil company, who used the cards primarily as a way of building customer loyalty. A person who carried one oil company credit card with him could only purchase gas and repairs at that firm's service stations. The same was true for department store shoppers. Often the convenience of credit card shopping would sway a major purchase decision.

About this time some smaller merchants began to band together in a certain city or region and issue a locally valid charge card that could be used at all of their stores. The card would be issued in conjunction with a local bank that would actually approve the credit applications and do the billing on the accounts. Over time the banks began to realize that there could be enormous profits in an all-purpose credit card that could be used nationwide and have wide acceptability. This is how the modern version of the general purpose bankcard was born. We should look at how a typical bankcard transaction works to explain the system in operation.

#### VISA and MasterCard

The key to bankcard success is widespread acceptability. It does a cardholder little good if he can use his card at only a few places in a given city. This is what the VISA and Master-Card names and symbols are all about. The card is not issued by VISA or MasterCard, but by the bank where the person applied for the card. The bank is a member of either the VISA or MasterCard interbank association. As a member of these asso-

ciations, the bank is entitled to place these symbols on the credit cards it issues and to have access to the clearing and payment system that the interbank association maintains. The clearing system is what allows one bank to collect payment for the credit card transaction slips that are drawn on other banks.

There was a time when a person could decide that credit was not something they wanted, and live on a cash basis. In to-day's world, that is almost impossible, and the credit grantors are the reason why. Try to rent a car, reserve a decent hotel room, or travel without a credit card. It is nearly impossible to rent a car without a credit card, and the same is happening with hotels. But it is a double-edged sword. As people must have credit sooner, more of these people will have credit problems later on because they did not appreciate how much debt they had taken on or were careless about making payments. The best way to explain the credit system is to examine it at work on a typical request.

#### How a Credit Application is Processed

You walk into a restaurant one day and grab a VISA card application from the cashier's counter. While you're waiting for your meal, you fill out the application. The application asks for all sorts of personal information: your name, birth date, Social Security number, last two addresses, bank accounts, work place, etc. After your meal, you mail the application off to the bank which issues this particular VISA card.

The first step in the credit process is what is called "scoring." When your application arrives at the bank, a low-level data processing clerk will enter the information you provided into a computer. The computer has a software program that awards a certain number of "points" for each item on the ap-

plication. For example, if you own your own home, you will receive more points than someone who rents.

Each financial institution has what is known as its "cut off" point total. If your application scores beneath this number, the bank will waste no more time with your application, and a rejection letter will be sent out to you at once. If your application scores above that number, the bank will order a credit report on you from one or possibly two credit bureaus. The reason the bank does not automatically order credit reports for every applicant is that the bank must pay for each credit report they order. Why waste money buying credit reports on people that don't even meet the bank's minimum lending criteria?

Once the credit report has arrived — often within minutes by on-line computer hook-up — the application and credit report will be sent to a junior "credit analyst" in the credit card department. He or she will examine the credit report to look for any late payments, accounts that had to be written off, or whether the applicant has too much debt. If the credit report largely agrees with what appears on the application, the credit card will be approved. A credit limit will be set, either as a ratio of your gross salary, or as a standard limit set by the bank on all new accounts. A few weeks later, your VISA card arrives through the mail.

#### **Understanding Credit Decisions**

To successfully use the credit system, one must understand the credit grantor's policies and feelings. In the industry, this is called "credit culture." Credit culture answers the question, "What type of people do we want to lend money to?" For example, the credit culture of American Express is certainly different from your local, high-interest finance company. American Express wants to lend money only to above average in-

come professional people, who really do not need the money. Your finance company may charge rates like a loan shark, but in a bind, if you are any kind of a decent risk, they will lend you money.

The other part of the system that you must understand is the credit bureau. A bad credit report will destroy any chance to obtain credit; a good credit report will literally have preapproved applications coming to your doorstep. Until your credit report says on it what you want it to say, you can forget about getting any credit.

#### **Chapter Two**

#### **Credit Bureau Services**

#### **Credit Reports**

Credit bureau reports contain more personal information on an individual than almost any other database, private or government. Under the "personal information" section, your credit bureau file will contain your name, birth date, Social Security number, last two addresses, and marital status. Under the "employment" section, it will have the name and address of your employer, along with your current salary and length of employment. There is another section on your credit report called "public information." Credit bureaus monitor the local courthouse and the U.S. Bankruptcy Court in your area. They enter into their data files the names of those people who are subject to lawsuits or judgments.

The next part of the credit report contains your actual credit history. Here, there will be a listing of all of your loans and charge accounts, what the current balance is on these accounts, the amount of the minimum payment, your highest balance on the account, and at the side a numerical code that indicates how you pay. This code runs from zero to nine. A nine indicates an account was charged off, a one means you pay right on time.

Credit reports differ a little in format from company to company. I suggest you order a copy of your credit report. It will run you about \$10. Look in the Yellow Pages under "Credit Bureaus" or "Credit Reporting Agencies" and send a letter with your name, address, birth date and Social Security number, along with the current fee. In a couple of weeks, you will have a copy of your report. If you have been turned down for credit, the rejection letter you received will tell you where to write for a free copy of your credit report.

#### **Credit Analysis**

Credit bureaus have become much more than just idle collectors of information for creditors. They have also become analyzers of financial information. Credit bureaus analyze data using computer software programs. For example, one large credit bureau has a software program that analyzes how quickly a person runs through lines of credit, the person's payment history and income growth, to determine if that person is a likely candidate for bankruptcy. A credit grantor who orders this option on the credit reports they receive will see a notation that the credit bureau software indicates this person is such a candidate.

#### **Chapter Three**

# New Laws Regulating the Credit Industry

The credit industry is subject to many laws, at both the state and federal levels. Many states have laws that restrict the amount of interest that can be charged, how credit contracts must be worded, and the penalties that can be imposed for late payments and other technical breaches of a credit agreement.

Federally incorporated banks must comply with the federal banking laws, as well as with the laws that govern their activities in the individual states where they do business. Among such laws are the usury laws that many states impose.

Usury laws set a limit on how much interest can be charged on a credit contract or credit card account. In a few states, the interest rate ceiling is as low as 12 percent. In the early 1980s, many banks had a desire to issue credit cards on a nationwide basis. Many of these banks found that their profits were limited because of the usury laws imposed by their home state.

The banks approached a number of state banking departments, and offered to make a deal. The deal involved jobs in exchange for no limits on interest rates. The carrot would be a nationwide credit card processing center with hundreds of

good jobs if the state usury ceiling would be eliminated or modified.

This is one reason that many credit card companies issue their plastic from Delaware. Delaware was one of the first states to adjust their usury laws. Delaware allows any interest rate to be charged to out-of-state cardholders by the credit card-issuing banks located there. More than 60 percent of the large, national card issuers now locate their credit card facility here. This industry has created thousands of jobs.

A few other states, such as South Dakota and Nevada, also have enacted similar changes in their lending laws to attract these businesses.

The ability to locate a credit card facility in a state with lenient lending laws has led many former regional banks to get into the nationwide credit card-issuing business, and has also led to the creation of the credit card-only bank.

A bank whose sole business is the national issuance of credit cards can be very profitable indeed. An expensive network of branches is not needed. Potential new cardholders can be contacted by mail, applications processed at one facility in the high-interest-rate state, and cards issued from the same location.

Aggressive use of credit reports allows high credit lines to be issued, along with a steady stream of profits on unpaid balances. Some of these banks are Capitol One, Advanta, and Discover. This brings us to the credit bureaus, whose products play a central role in all of this.

All credit bureaus are regulated by federal laws, and also by any state laws wherever they operate. Technically, a credit bureau is known as a Consumer Credit Reporting Agency, and the law that regulates them is the Federal Fair Credit Reporting Act.

The federal law regulates how credit bureaus can gather their information, who they may legally transmit this informa-

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tion to, and under what conditions, and finally, the rights of the consumer with respect to the information contained in the credit report. Excerpts from the Fair Credit Reporting Act appear at the end of this chapter.

The federal law is enforced by the Federal Trade Commission, or FTC, for short. Consumers must lodge complaints with the nearest branch of this agency if they feel a credit bureau has trampled their rights under the federal law. The addresses of the FTC appear below:

Federal Trade Commission Headquarters Sixth and Pennsylvania Avenue NW Washington, DC 20580 202-326-2222

Seattle Regional Office
Federal Trade Commission
2806 Federal Building
915 Second Avenue
Seattle, WA 98174

For Consumer Complaints: 206-220-6363

Business Calls: 206-220-6350

Fax: 206-220-6366

San Francisco Regional Office Federal Trade Commission 901 Market Street, Suite 570 San Francisco, CA 94103

For Consumer Complaints: 415-356-5270

Business Calls: 415-356-5270

Fax: 415-356-5284

Los Angeles Regional Office Federal Trade Commission 10877 Wilshire Blvd., Suite 700 Los Angeles, CA 90024

For Consumer Complaints: 310-824-4300

Denver Regional Office Federal Trade Commission 1961 Stout Street, Suite 1523 Denver, CO 80294-0101

For Consumer Complaints: 303-844-2271

Chicago Regional Office
Federal Trade Commission
55 East Monroe Street, Suite 1860
Chicago, IL 60603-5701

For Consumer Complaints: 312-960-5633

Fax: 312-960-5600

Dallas Regional Office Federal Trade Commission 1999 Bryan Street, Suite 2150 Dallas, TX 75201-6808

For Consumer Complaints: 214-979-0213

Atlanta Regional Office
Federal Trade Commission
60 Forsyth Street SW, Suite 5M35
Atlanta, GA 30303-2322

For Consumer Complaints: 404-656-1399

Business Calls: 404-656-1390

Fax: 404-656-1379

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Cleveland Regional Office Federal Trade Commission 1111 Superior Avenue, Suite 200 Cleveland, OH 44114-2507

For Consumer Complaints: 216-263-3410

Fax: 216-263-3426

New York Regional Office Federal Trade Commission 150 William Street, Suite 1300 New York, NY 10038

For Consumer Complaints: 212-264-1207

Business Calls: 212-264-1207

Fax: 212-264-0459

Boston Regional Office Federal Trade Commission 101 Merrimac Street, Suite 810 Boston, MA 02114-4719

For Consumer Complaints: 617-424-5960

Business Calls: 617-424-5960

Fax: 617-424-5998

In 1997, some additions and changes were made to the Fair Credit Reporting Act. These changes came about because of increasing consumer complaints regarding credit bureaus and the integrity of the information contained in their files. The credit bureaus agreed to these changes because they were worried that many states would enact even stronger laws if the federal legislation was not passed.

One of these changes has to do with credit reports pulled for pre-employment screening. In the past, these reports were often pulled on job applicants without their knowledge. A job offer could be denied based on negative or inaccurate information in the credit report. Most job applicants did not know that a credit report was being ordered, because this fact was buried deep in the fine print on the employment application.

Now, job applicants must be informed by an employer that a credit report is being ordered for pre-employment investigation, and the credit bureau must also notify the job applicant of this fact and supply him with a copy of that report.

Another change, one that is not so favorable to consumers, has to do with pre-approved credit applications. In the past, if a credit card solicitation said "pre-approved," the creditor was legally obligated to supply a credit card to everyone who returned the solicitation with a signature and confirmation of name, address, birth date and Social Security number. The law required this so that creditors would stop abusing pre-approved solicitations to increase response rates. In the old days, creditors would send out solicitations that said they were pre-approved, but in reality, were not. A credit report would be ordered on every applicant who responded. Creditors learned that when a solicitation said it was pre-approved, response rates would double or triple.

The law now says that a creditor who sends out preapproved applications still has the right to order a new credit report on the respondent. If the credit report indicates that the applicant still meets the selection criteria of the bank, a card will be issued. If the cardholder no longer meets the credit criteria, the pre-approved offer can be rescinded.

On the other hand, the law now allows you to prohibit your credit information from being used by banks for prescreening purposes. We need to understand just how prescreening works before a decision can be made about opting out of this credit bureau program.

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Prescreening allows banks and other lenders to compile a massive list of potential prospects at a very low cost. It also allows them to locate exactly the type of customer that they wish to lend to.

A bank looking for new customers of an upscale credit card with a minimum credit line of \$10,000 can say to the credit bureau that they want the names and addresses of 50,000 people who meet the following criteria:

Income of at least \$85,000 per year Homeowner At least three good credit card references Professionally employed for at least five years

The credit bureau can enter these search criteria into their computer, and then pull random names that meet these standards. These names and addresses are then given to the bank that ordered the list. Notice that the bank does not actually see the credit report. The bureau charges the bank a fraction of the cost of the full credit report on each name.

When the bank receives a response to its pre-approved solicitation, a full credit report is ordered. If the prospect still meets the lending criteria, the card is issued. If the prospect's credit has declined below acceptable standards, the application is refused on that basis.

You can prohibit your credit file from being accessed in prescreening programs run by the bureaus. Write to the bureaus at the addresses given in Chapter One and request that your credit report no longer be made available for prescreening programs. This will eliminate almost all pre-approved credit offers.

### **Excerpts From The Fair Credit Reporting Act**

United States Code Annotated
Title 15. Commerce and Trade
Chapter 41 — Consumer Credit Protection
Subchapter III — Credit Reporting Agencies
Current through P.L. 103-251, approved 5-16-94

#### § 1681c. Reporting of obsolete information prohibited

- (a) Except as authorized under subsection (b) of this section, no consumer reporting agency [credit bureau] may make any consumer report containing any of the following items of information:
  - (1) Cases under Title 11 or under the Bankruptcy Act that, from the date of entry of the order for relief or the date of adjudication, as the case may be, antedate the report by more than 10 years.
  - (2) Suits and judgments which, from date of entry, antedate the report by more than seven years or until the governing statute of limitations has expired, whichever is the longer period.
  - (3) Paid tax liens which, from date of payment, antedate the report by more than seven years.
  - (4) Accounts placed for collection or charged to profit and loss which antedate the report by more than seven years.
  - (5) Records of arrest, indictment, or conviction of crime which, from date of disposition, release, or parole, antedate the report by more than seven years.
  - (6) Any other adverse item of information which antedates the report by more than seven years.

- (b) The provisions of subsection (a) of this section are not applicable in the case of any consumer credit report to be used in connection with -
  - (1) a credit transaction involving, or which may reasonably be expected to involve, a principle amount of \$50,000 or more:
  - (2) the underwriting of life insurance involving, or which may reasonably be expected to involve, a face amount of \$50,000 or more; or
  - (3) the employment of any individual at an annual salary which equals, or which may reasonably be expected to equal \$20,000 or more.

#### § 1681g. Disclosures to consumers

(a) Information on file; sources; report recipients Every consumer reporting agency shall, upon request and proper identification of any consumer, clearly and

accurately disclose to the consumer;

(1) The nature and substance of all information (except medical information) in its files on the consumer at the time of the request.

- (2) The sources of the information; except that the sources of information acquired solely for use in preparing an investigative consumer report and actually used for no other purpose need not be disclosed: Provided, that in the event an action is brought under this subchapter, such sources shall be available to the plaintiff under appropriate discovery procedures in the court in which the action is brought.
- (3) The recipients of any consumer report on the consumer which it has furnished

- (A) Identification of each person (including each enduser identified under section 1681(e)(1) of this title) that procured a consumer report
  - (i) for employment purposes, during the 2-year period preceding the date on which the request is made; or
  - (ii) for any other purpose, during the 1-year period preceding the date on which the request is made.
- (B) An identification of a person under subparagraph (A) shall include
  - (i) the name of the person, or if applicable, the trade name (written in full) under which such person conducts business; and
  - (ii) upon request of the consumer, the address and telephone number of the person.
- (4) The dates, original payees, and amounts of any checks upon which is based any adverse characterization of the consumer, included in the file at the time of disclosure.
- (5) A record of all inquiries received by the agency during the 1-year period preceding the request that identified the consumer in connection with a credit or insurance transaction that was not initiated by the consumer.

#### (b) Exempt information.

The requirements of subsection (a) of this section respecting the disclosure of sources of information and the recipients of consumer reports do not apply to information received or consumer reports furnished prior to the effective date of this subchapter except to the extent that the matter involved is contained in the files of the consumer reporting agency on that date.

(c) Summary of rights required to be included with disclosure.

(1) Summary of rights.

A consumer reporting agency shall provide to a consumer, with each written disclosure by the agency to the consumer under this section

- (A) a written summary of all the rights that the consumer has under this subchapter; and
- (B) in the case of a consumer reporting agency that compiles and maintains files on consumers on a nationwide basis, a toll-free telephone number established by the agency, at which personnel are accessible to consumers during normal business hours.
- (2) Specific items required to be included.

The summary of rights required under paragraph (1) shall include

- (A) a brief description of this subchapter and all rights of consumers under this subchapter;
- (B) an explanation of how the consumer may exercise the rights of the consumer under this subchapter;
- (C) a list of all Federal agencies responsible for enforcing any provision of this subchapter and the address and any appropriate phone number of each such agency, in a form that will assist the consumer in selecting the appropriate agency;
- (D) a statement that the consumer may have additional rights under State law and that the consumer may wish to contact a State or local consumer protection agency or a State attorney general to learn of those rights; and
- (E) a statement that a consumer reporting agency is not required to remove accurate derogatory information from a consumer's file, unless the in-

formation is outdated under section 1681c of this title or cannot be verified.

(3) Form of summary rights.

For purposes of this subsection and any disclosure by a consumer reporting agency required under this subchapter with respect to consumers' rights, the Federal Trade Commission (after consultation with each Federal agency referred to in 1681s(b) of this title) shall prescribe the form and content of any such disclosure of the rights of consumers required under this subchapter. A consumer reporting agency shall be in compliance with this subsection if it provides disclosures under paragraph (1) that are substantially similar to the Federal Trade Commission prescription under this paragraph.

(4) Effectiveness.

No disclosures shall be required under this subsection until the date on which the Federal Trade Commission prescribes the form and content of such disclosures under paragraph (3).

#### § 1681h. Conditions and form of disclosure to consumers

(a) In general.

(1) Proper Identification.

A comsumer reporting agency shall require, as a condition of making the disclosures required under section 1681g of this title, that the consumer furnish proper identification.

(2) Disclosure in writing.

Except as provided in subsection (b) of this section, the disclosures required to be made under section 1681(g) of this title shall be provided under that section in writing.

(b) Other forms of disclosure.

## Chapter Three New Laws Regulating the Credit Industry

(1) In general.

If authorized by a consumer, a consumer reporting agency may make the disclosures required under 1681g of this title

- (A) other than in writing; and
- (B) in such form as may be
  - (i) specified by the consumer in accordance with paragraph (2); and
  - (ii) available from the agency.
- (2) Form.

A consumer may specify pursuant to paragraph (1) that disclosures under section 1681g of this title shall be made

- (A) in person, upon the appearance of the consumer at the place of business of the consumer reporting agency where disclosures are regularly provided, during normal business hours, and on reasonable notice;
- (B) by telephone, if the consumer has made a written request for disclosure by telephone;
- (C) by electronic means, if available from the agency; or
- (D) by any other reasonable means that is available from the agency.

#### (c)Trained personnel.

Any consumer reporting agency shall provide trained personnel to explain to the consumer any information furnished to him pursuant to section 1681g of this title.

(d) Persons accompanying consumer.

The consumer shall be permitted to be accompanied by one other person of his choosing, who shall furnish reasonable identification. A consumer reporting agency may require the consumer to furnish a written statement granting permission to the consumer reporting agency to discuss the consumer's file in such person's presence.

(e) Limitation of liability.

Except as provided in sections 1681n and 1681o of this title, no consumer may bring any action or proceeding in the nature of defamation, invasion of privacy, or negligence with respect to the reporting of information against any consumer reporting agency, any user of information, or any person who furnishes information to a consumer reporting agency, based on information disclosed pursuant to section 1681g, 1681h, or 1681m of this title, or based on information disclosed by a user of a consumer report to or for a consumer against whom the user has taken adverse action, based in whole or in part on the report, except as to false information furnished with malice or willful intent to injure such consumer.

#### § 1681i. Procedure in case of disputed accuracy

- (a) Reinvestigations of disputed information.
  - (1) Reinvestigation required.
    - (A) In general.

If the completeness or accuracy of any item of information contained in a consumer's file at a consumer reporting agency is disputed by the consumer and the consumer notifies the agency directly of such dispute, the agency shall reinvestigate free of charge and record the current status of the disputed information, or delete the item from the file in accordance with paragraph (5), before the end of the 30-day period beginning on the date on which the agency receives the notice of the dispute from the consumer.

(B) Extension of period to reinvestigate.

Except as provided in subparagraph (C), the 30-day period described in subparagraph (A) may be extended for not more than 15 additional days if the consumer reporting agency receives information from the consumer during that 30-day period that is relevant to the reinvestigation.

(C) Limitations on extension of period to reinvestigate.

Subparagraph (B) shall not apply to any reinvestigation in which, during the 30-day period described in subparagraph (A), the information that is the subject of the reinvestigation is found to be inaccurate or incomplete or the consumer reporting agency determines that the information cannot be verified.

(2) Prompt notice of dispute to furnisher of information.

(A) In general.

Before the expiration of the 5-business-day period beginning on the date on which a consumer reporting agency receives notice of a dispute from any consumer in accordance with paragraph (1), the agency shall provide notification of the dispute to any person who provided any item of information in dispute, at the address and in the manner established with the person. The notice shall include all relevant information regarding the dispute that the agency has received from the consumer.

(B) Provision of other information from consumer.

The consumer reporting agency shall promptly provide to the person who provided the information in dispute all relevant information regarding the dispute that is received by the agency from the consumer after the period referred to in sub-

paragraph (A) and before the end of the period referred to in paragraph (1)(A).

(3) Determination that dispute is frivolous or irrelevant.

(A) In general.

Notwithstanding paragraph (1), a consumer reporting agency may terminate a reinvestigation of information disputed by a consumer under that paragraph if the agency reasonably determines that the dispute by the consumer is frivolous or irrelevant, including by reason of a failure by a consumer to provide sufficient information to investigate the disputed information.

(B) Notice of determination.

Upon making any determination in accordance with subparagraph (A) that a dispute is frivolous or irrelevant, a consumer reporting agency shall notify the consumer of such determination not later than 5 business days after making such determination, by mail or, if authorized by the consumer for that purpose, by any other means available to the agency.

(C) Contents of notice.

A notice under subparagraph (B) shall include

- (i) the reasons for the determination under subparagraph (A); and
- (ii) identification of any information required to investigate the disputed information, which may consist of a standardized form describing the general nature of such information.

(4) Consideration of consumer information.

In conducting any reinvestigation under paragraph (1) with respect to disputed information in the file of any consumer, the consumer reporting agency shall review and consider all relevant information

submitted by the consumer in the period described in paragraph (I)(A) with respect to such disputed information.

(5) Treatment of inaccurate or unverifiable information.

(A) In general.

If, after any reinvestigation under paragraph (1) of any information disputed by a consumer, an item of the information is found to be inaccurate or incomplete or cannot be verified, the consumer reporting agency shall promptly delete that item of information from the consumer's file or modify that item of information, as appropriate, based on the results of the reinvestigation.

- (B) Requirements relating to reinsertion of previously deleted material.
  - (i) Certification of accuracy of information.

    If any information is deleted from a consumer's file pursuant to subparagraph (A), the information may not be reinserted in the file by the consumer reporting agency unless the person who furnishes the information certifies that the information is complete and accurate.
  - (ii) Notice to consumer.

If any information that has been deleted from a consumer's file pursuant to subparagraph (A) is reinserted in the file, the consumer reporting agency shall notify the consumer of the reinsertion in writing not later than 5 business days after the reinsertion or, if authorized by the consumer for that purpose, by any other means available to the agency.

(iii) Additional information.

As part of, or in addition to, the notice under clause (ii), a consumer reporting agency shall provide to a consumer in writing not later than 5 business days after the date of the reinsertion

- (I) a statement that the disputed information has been reinserted;
- (II) the business name and address of any furnisher of information contacted and the telephone number of such furnisher, if reasonably available, or of any furnisher of information that contacted the consumer reporting agency, in connection with the reinsertion of such information; and
- (III) a notice that the consumer has the right to add a statement to the consumer's file disputing the accuracy or completeness of the disputed information.
- (C) Procedures to prevent reappearance.

A consumer reporting agency shall maintain reasonable procedures designed to prevent the reappearance in a consumer's file, and in consumer reports on the consumer, of information that is deleted pursuant to this paragraph (other than information that is reinserted in accordance with subparagraph (B)(i).

(D) Automated reinvestigation system.

Any consumer reporting agency that compiles and maintains files on consumers on a nationwide basis shall implement an automated system through which furnishers of information to that consumer reporting agency may report the results of a reinvestigation that finds incomplete or inaccurate information in a consumer's file to other such consumer reporting agencies.

#### (6) Notice of results of reinvestigation.

### (A) In general.

A consumer reporting agency shall provide written notice to a consumer of the results of a reinvestigation under this subsection not later than 5 business days after the completion of the reinvestigation, by mail or, if authorized by the consumer for that purpose, by other means available to the agency.

#### (B) Contents.

As part of, or in addition to, the notice under subparagraph (A), a consumer reporting agency shall provide to a consumer in writing before the expiration of the 5-day period referred to in subparagraph (A)

(i) a statement that the reinvestigation is completed;

(ii) a consumer report that is based upon the consumer's file as that file is revised as a result of the reinvestigation;

(iii) a notice that, if requested by the consumer, a description of the procedure used to determine the accuracy and completeness of the information shall be provided to the consumer by the agency, including the business name and address of any furnisher of information contacted in connection with such information and the telephone number of such furnisher, if reasonably available;

(iv) a notice that the consumer has the right to add a statement to the consumer's file dis-

puting the accuracy or completeness of the information; and

- (v) a notice that the consumer has the right to request under subsection. (d) of this section that the consumer reporting agency furnish notifications under that subsection.
- (7) Description of reinvestigation procedure.

A consumer reporting agency shall provide to a consumer a description referred to in paragraph (6)(B)(iv) by no later than 15 days after receiving a request from the consumer for that description.

- (8) Expedited dispute resolution.
  - If a dispute regarding an item of information in a consumer's file at a consumer reporting agency is resolved in accordance with paragraph (5)(A) by the deletion of the disputed information by no later than 3 business days after the date on which the agency receives notice of the dispute from the consumer in accordance with paragraph (1)(A), then the agency shall not be required to comply with paragraphs (2), (6), and (7) with respect to that dispute if the agency

(A) provides prompt notice of the deletion to the consumer by telephone;

- (B) includes in that notice, or in a written notice that accompanies a confirmation and consumer report provided in accordance with subparagraph (C), a statement of the consumer's right to request under subsection (d) of this section that the agency furnish notifications under that subsection; and
- (C) provides written confirmation of the deletion and a copy of a consumer report on the consumer that is based on the consumer's file after the deletion, not later than 5 business days after making the deletion.

#### (b) Statement of dispute

If the reinvestigation does not resolve the dispute, the consumer may file a brief statement setting forth the nature of the dispute. The consumer reporting agency may limit such statements to not more than one hundred words if it provides the consumer with assistance in writing a clear summary of the dispute.

(c) Notification of consumer dispute in subsequent consumer reports

Whenever a statement of a dispute is filed, unless there is reasonable grounds to believe that it is frivolous or irrelevant, the consumer reporting agency shall, in any subsequent consumer report containing the information in question, clearly note that it is disputed by the consumer and provide either the consumer's statement or a clear and accurate codification or summary thereof.

(d) Notification of deletion of disputed information

Following any deletion of information which is found to be inaccurate or whose accuracy can no longer be verified or any notation as to disputed information, the consumer reporting agency shall, at the request of the consumer, furnish notification that the item has been deleted or the statement, codification or summary pursuant to subsection (b) or (c) of this section to any person specifically designated by the consumer who has within two years prior thereto received a consumer report for employment purposes, or within six months prior thereto received a consumer report for any other purpose, which contained the deleted or disputed information.

#### § 1681j. Charges for disclosures

- (a) Reasonable charges allowed for certain disclosures
  - (1) In general.

Except as provided in subsections (b), (c), and (d) of this section, a consumer reporting agency may impose a reasonable charge on a consumer

- (A) for making a disclosure to the consumer pursuant to section 1681g of this title, which charge
  - (i) shall not exceed \$8; and
  - (ii) shall be indicated to the consumer before making the disclosure; and
- (B) for furnishing, pursuant to section 1681i(d) of this title, following a reinvestigation under section 1681i(a) of this title, a statement, codification, or summary to a person designated by the consumer under that section after the 30-day period beginning on the date of notification of the consumer under paragraph (6) or (8) of section 1681i(a) of this title with respect to the reinvestigation, which charge
  - (i) shall not exceed the charge that the agency would impose on each designated recipient for a consumer report; and
  - (ii) shall be indicated to the consumer before furnishing such information.
- (2) Modification of amount.

The Federal Trade Commission shall increase the amount referred to in paragraph (l)(A)(i) on January 1 of each year, based proportionally on changes in the Consumer Price Index, with fractional changes rounded to the nearest fifty cents.

(b) Free disclosure after adverse notice to consumer.

Each consumer reporting agency that maintains a file on a consumer shall make all disclosures pursuant to section 1681g of this title without charge to the consumer if, not later than 60 days after receipt by such consumer of a notification pursuant to section 1681m of this title, or of a notification from a debt

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collection agency affiliated with that consumer reporting agency stating that the consumer's credit rating may be or has been adversely affected, the consumer makes a request under section 1681g of this title.

(c) Free disclosure under certain other circumstances.

Upon the request of the consumer, a consumer reporting agency shall make all disclosures pursuant to section 1681g of this title once during any 12-month period without charge to that consumer if the consumer certifies in writing that the consumer

- (1) is unemployed and intends to apply for employment in the 60-day period beginning on the date on which the certification is made;
- (2) is a recipient of public welfare assistance; or
- (3) has reason to believe that the file on the consumer at the agency contains inaccurate information due to fraud.

(d) Other charges prohibited.

A consumer reporting agency shall not impose any charge on a consumer for providing any notification required by this subchapter or making any disclosure required by this subchapter, except as authorized by subsection (a) of this section.

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### **Chapter Four**

### **Credit Scoring**

In the past, credit bureaus simply provided information to credit grantors. Now, however, credit bureaus are attempting to increase the utility of their reports to credit grantors by offering a service where they assign a risk score to each applicant's credit report. This risk score is supposed to be a relative measure of how likely a given consumer is to become a loss to a credit grantor.

These scores are controversial because the bureaus do not disclose them to consumers on the "sanitized" credit reports that consumers receive directly from the bureaus. The Federal Trade Commission tried to make the disclosure of these scores mandatory to the public in 1995. The credit bureau industry fought back, and the Federal Trade Commission rescinded its order a year later.

The risk score models assign a numerical value to each consumer's report. One of the more popular models scores reports from between 360 and 800. The higher the score, the better risk the applicant is considered to be. Some lenders have now stopped looking at the actual credit report, and award credit solely on the basis of the risk score.

These risk scoring models consider some of the following information in assigning a numerical value to a credit report:

Total number of credit accounts
Payment history on all accounts
Rate at which credit lines are maxed out
Percentage of total available credit card debt used
Number of recent inquiries
Length of time at current address
Public record items

These computer models were derived by studying people who eventually declared bankruptcy or had serious credit problems. Certain common indicators were present with these individuals. The scoring programs look for these indicators and adjust the numerical score to reflect the program's opinion of relative risks.

Consider the number of inquiries criterion. An otherwise creditworthy individual can develop a bad credit risk score if excessive numbers of inquiries are made on his credit report. The scoring programs justify this as a valid criterion because people who get into credit default will often have numerous credit reports pulled, and open many new accounts over a relatively short period of time.

But this can backfire, because some lending, such as auto financing, typically involves a dealer faxing a loan application to three or four banks at the same time to ensure credit approval for the would-be car buyer. Each of these lenders will subsequently order a credit report.

This problem has caused some scoring models to disregard multiple inquiries made within a few days of each other. The point is, your credit risk score will change with each report ordered. The number of credit lines open can also affect your score, even if all payments have been made on time. These scoring models consider a number of open credit lines, even if they have no balance on them, as a potential source of loss, and will penalize the applicant in the scoring process.

Each creditor will have its own range of scores that it will accept. But credit report scoring represents a big step forward for the credit bureaus. They are now actively involved in predicting the future behavior of individual consumers, and not just reporting payment data from creditors.

Credit scoring can hurt consumers, because if more and more creditors simply rely upon the score, a dispute statement added to a report to explain a written off account, for example, will never be seen. This written off account will cause the score to be below acceptable levels, and the credit applicant will be rejected without anyone bothering to notice that all of the other accounts on the report are current.

Credit scoring is not the only new trend in the credit granting industry. Many of the credit card banks now pull your credit report retroactively, after you have been issued a card, to see if you still meet their standards.

An individual could have a current credit card account with bank "A," but have an account in arrears at another bank, bank "B." Bank "A" then pulls a credit report one year after opening a credit card account with this consumer. They see the delinquent account at the other bank and then either cancel their account with the consumer, or reduce the credit limit and raise the interest rate.

Is this legal? Yes it is! In the fine print on most credit card applications, you give the card issuer broad latitude on how it evaluates your continued financial solvency.

One card issuer goes even further than this. This card issuer evaluates your credit report carefully, to determine the maximum interest rate they think you will be willing to accept

on their credit card. They have a range in mind that they will be willing to negotiate on. They then call each applicant who has been approved and dangle a very large credit line with a number of caveats.

They may attempt to get the consumer to agree not to open any more credit accounts after accepting their offer. They may agree to offer a lower interest rate only if the consumer agrees to do balance transfers from other credit card accounts, and then close those accounts out.

### **Chapter Five**

### Fixing Bad Credit

Cleaning up credit reports became big business at the end of the 1980s. In many magazines you will see advertisements that tell you they can clean up your credit, for a fee. The fee starts at several hundred dollars and can go as high as \$5,000. You can do the same thing yourself for a few dollars in postage and a little time and effort. An individual can do this because of provisions in the laws that credit bureaus and credit grantors operate under.

The Fair Credit Reporting Act says that if a credit bureau is challenged about an entry on a credit report, they must justify it to the consumer. This justification must come in the form of a confirmation statement from the source of entry. If the credit bureau cannot furnish the consumer with this confirmation within a reasonable period of time, then the item must be removed from the credit report. However, if the creditor verifies the item at a later date, the credit bureau will re-insert it onto the report. Let's look at the various negative items that might be on your credit report, and devise a strategy for removing as many as possible.

### **Excessive Inquires**

Every time you apply for credit, a notation is made on your credit report that someone inquired about your credit worthiness. People who are denied credit frequently reapply time and time again. Each one of these attempts is shown on the credit report. When the next creditor sees the report, the first question is why should he or she extend credit when no one else will. A lot of inquiries can also trigger the credit bureau's fraud detection programs. There are thousands of people who have destroyed their chances of obtaining credit because they have too many inquiries listed on their report. The good news is, if this is your case, this is the easiest type of credit report problem to repair.

You can proceed according to one of two ways. The first is to dispute the inquiry with the creditor. The second is to dispute the inquiry with the credit bureau. I recommend dealing with the credit bureau. The way you do this is to send a letter to all the major credit bureaus that have the unwanted inquiries on your report. You must send a separate letter to each credit bureau for the inquiries you wish to dispute on their reports. The letter is very simple. It should have your name, birth date, Social Security number and address. In the letter you should say that you have no recollection of that particular inquiry, and would they please investigate it and remove it. Keep a copy of the letter and send it certified mail. A sample letter appears on the next page.

### Sample Letter for Disputing Inquiries

Your Name Your Address

Your City, State, Zip

Social Security #: XXX-XX-XXXX

Birth Date: XX/XX/XX

Today's Date

Credit Bureau Name Credit Bureau Address City/State/Zip

To Whom It May Concern:

I did not authorize the following inquiries on my credit report. Please investigate them and send me a copy of my corrected credit report.

Name of Creditor Date of Inquiry Name of Creditor Date of Inquiry

Name of Creditor Date of Inquiry Name of Creditor Date of Inquiry

Sincerely,

(Signature)
Printed Name

After the letter arrives at the credit bureau a process is put into motion. The credit bureau will pull a copy of your credit report and make sure the inquiry is present. They will then mail a copy of your dispute letter along with a confirmation slip to the creditor in question. The creditor will then check his records to confirm the inquiry. If no confirmation is found, the inquiry must be removed from the credit report. At least this is how it works in theory. The reality is much different.

Confirming an inquiry costs a creditor money. Someone from the credit department must go and search the records for the inquiry. There is nothing to gain for the creditor because, since credit was never granted, no account was opened and no money was lost. A record of the inquiry probably will not exist after 90 days. When no account is established, the creditor generally hangs onto inquiry records for a short time, and then disposes of them. There is a good chance the letter requesting confirmation of the inquiry will simply be ignored.

Five weeks later send the credit bureau a follow up letter like the one shown on the next page. In almost all cases this will be enough to get simple inquiries removed.

### Sample Follow-up Letter for Removing Any Disputed Items or Inquiries

Your Name Your Address Your City, State, Zip

Social Security #: XXX-XX-XXXX

Birth Date: XX/XX/XX

Today's Date

Credit Bureau Name Credit Bureau Address City/State/Zip

To Whom It May Concern:

On (date of previous letter) I sent you a letter (copy attached) asking you to investigate and remove the following items from my credit report. You are required by law to remove these items unless you can verify them. Please remove these items and send me a copy of my corrected credit report.

Name of Creditor Date of Inquiry Name of Creditor Date of Inquiry

Name of Creditor Date of Inquiry Name of Creditor Date of Inquiry

Sincerely,

(Signature)
Printed Name

### **Charge-Offs**

Removing a record of a debt that was written off by the creditor can require more effort. The difference is that in this case the creditor has lost money and has an interest in seeing that your credit is damaged. In short he is angry, and wants to make you suffer in the only way he can. But a persistent campaign will often yield results here. The key aspect of the law to remember is that the first time the creditor fails to confirm a disputed item within a reasonable time period, the credit bureau must remove this item from your report.

There are loopholes in everything. The loophole is in the records creditors keep. Let's assume that five years ago you had a loan that had to be written off. There is a very good chance that the creditor no longer has the records from this account. Generally, after a three-year period, a creditor assumes that an account is totally uncollectible, and it is written off. The account will have been given to a collection agency, and the collection agency may have given up on it.

In this situation there is a chance that you will be able to get the disputed account removed. Once again, on such an old account the creditor will not have readily available records to consult. This will often cause enough delay in the response to allow the item to be removed from the report. You can use the same letter format as shown for disputing inquiries, only you dispute the debt. If you get no response in five weeks, ask for the item to be removed.

Many consumers experience the problem of previously deleted items being reinserted into their credit report a few months later. Amendments recently made the FCRA allow this practice under certain circumstances. If this happens to you, your only recourse under the federal law may be to go to court and have a judge decide if your situation is one where the

credit bureau can do this. Going to court is usually the least desirable alternative. You may be able to avail yourself of another option.

Many states have laws regulating credit bureaus that give consumers greater rights against the credit bureau, and many of these state laws explicitly prohibit the reinsertion of previously removed data. Consult your state consumer affairs department or attorney general's office to see if your state has a credit reporting agency law. If it does, you, as the consumer, have the option of filing your dispute with the bureau under your state's law and not the federal law. This will often get the results you seek.

### **Slow-Pays**

For accounts that are still open and delinquent, where the creditor does confirm the account, another strategy is available that frequently works. We must first understand the mind of the creditor. To the creditor, you are nothing but a deadbeat that has caused him a loss. If he can reduce that loss by a substantial amount, he will be interested in doing so. This is particularly true of collection departments, whose performance is based on how much they bring in. In these cases the best idea is to write a letter to the creditor, proposing a deal. You will pay off the account, or a sizeable amount, and in return they will agree to remove the negative items from the report.

You would follow the same procedure as before, keeping a copy of all correspondence. Make sure that you get the creditor's firm commitment in writing before you make any payment on the account. The sample letter for doing this is shown on the next page.

## Sample Agreement Between You and Creditor

Your Name Your Address Your City, State, Zip Account Number:

Today's Date

Creditor Name Creditor Address City/State/Zip

**Dear Creditor:** 

This is in regard to the account shown above with the outstanding balance of \$ . . I agree to pay you the sum of \$ . . as payment in full of this obligation, if you agree to remove this item from my credit report and no longer report the delinquency to any credit bureaus.

If you agree to this arrangement, please have a copy of this letter signed by an authorized representative of your company in the space provided below. Return the signed copy of this agreement to me and I will immediately forward payment.

Sincerely,

(Signature)
Printed Name

I agree to the arrangement described above:

Name

Date

### **Inserting Explanations**

Sometimes there will be an account that you cannot rectify either through an agreement with the creditor or by disputing the item with the credit bureau. If you can remove most of the bad accounts on your credit report, you can sometimes obtain new credit. For the accounts you can't remove, you are entitled to insert a note of explanation on your credit report.

Under the Fair Credit Reporting Act, you have the right to include a short statement as to why an item appears on your report. You can use up to 100 words to explain each item on your report. If a person has good credit with the exception of one bad item on the report, and the 100-word explanation is plausible, creditors may assume that the bad item was due to a legitimate dispute. A sample 100-word statement is shown on the next page. You will need to tailor the wording to fit each item on your report.

You should try to think up a good reason for not being able to pay your debts on time. The best reason, as far as creditors are concerned, is an unexpected bill that will not happen again. For example, a death in the family requiring a leave from work and an expensive plane trip; an injury that required expensive medical treatment but is not recurring; your car was smashed by an uninsured drunk driver and you had to buy a new one for your work. The key elements to these explanations are that you couldn't have planned for this or done anything to prevent it, and it's not likely to happen again.

However, as discussed in Chapter Four, with the increased use of credit scoring, some creditors may not even look at your credit report, let alone your attached explanations.

# Sample Letter to Insert Statement on Report

Your Name
Your Address
Your City, State, Zip
Social Security #: XXX-XX-XXXX

Birth Date: XX/XX/XX

Today's Date

Credit Bureau Name Credit Bureau Address City/State/Zip

To Whom It May Concern:

I would like the following statement of explanation to be inserted on my credit report concerning the item reported by (name of creditor and account number).

In January of 1992 I suffered a severe injury at home. At that time, I was not covered under health insurance. Due to the medical bills, I was unable to pay this creditor in a timely manner. The injury has healed completely and is not a recurring problem. I am now covered by a health insurance policy, so I do not believe this same situation will happen again. I am doing my best to pay all my bills and establish good credit.

Please insert this note of explanation and send me a copy of my revised credit report.

Sincerely,

(Signature)
Printed Name

# Bankruptcies, Liens and Other Black Marks

The last type of information that you want to remove is public record information. This type of information includes such things as bankruptcy judgments, wage garnishments and liens placed against you. Serious credit problems like these must be handled a little differently because of the easy availability of confirmation of the particular event. The loophole on these types of judgments is that the confirmation must come from the custodian of the records.

The fact that your name may be listed on a bankruptcy index for a given year at a certain bankruptcy court is not sufficient confirmation. The court clerk must obtain the record of the actual bankruptcy order to confirm the bankruptcy. The following strategy will work when the bankruptcy is a few years old. This works because the actual bankruptcy file will have been sent to a federal archive center. To obtain the record, the court clerk will have to order it from the archive.

The first step is to order a copy of your file from the court. The same day that you do this, write to the credit bureau disputing the bankruptcy. The records will be shipped from the archive to the bankruptcy court for your inspection. During this period, the court clerk will not be able to process the credit bureau's request for verification of your bankruptcy.

It will take at least two weeks for your records to be shipped from the archive to the court. Usually, the credit bureau will not have even begun to process your request for confirmation. Do not contact the court to see if your records have arrived; wait for them to contact you before going to copy the documents. While you're stalling, your records will be in a holding area and unavailable for credit bureau confirmation.

While this delay is going on, you send your follow-up letter to the credit bureau requesting deletion of the bankruptcy. Variations of this strategy are very effective in removing all sorts of public record information.

However, some people may find it impossible to remove enough negative items from their credit report to restore their good credit. Therefore, in the next chapter you will learn how to create a new credit bureau file for yourself that contains no bad information. It does not matter if you have been bankrupt or if you've had repossessions. This method will allow you to obtain a "clean slate." Once this clean slate is obtained at the credit bureau, you can then follow my quick method to get your first loan or credit card.

### **Chapter Six**

# Creating a Blank Slate at the Bureau

The method described in this chapter is useful to the person who wants a clear credit file in his or her own name or the person who wants to create a new identity from the ground up. This method is known as "File Segregation," "Alternate File Creation," or as I prefer, "Dummy Credit File" creation. Essentially, creating a dummy credit file allows you to obtain a completely blank file at the credit bureau in your own name. There will be no credit history contained in the new file, but there will not be any negative information either. The next step after this is to start building a favorable credit rating by obtaining new credit, which is explained in the next chapter.

Dummy credit files can be created because of the massive number of files that credit bureaus must maintain. There are thousands of people who have the same first, middle, and last names. There are also thousands of people with identical dates of birth. Some people appear to have identical Social Security numbers, caused either by errors made while writing the number down on an application form, or a computer operator entering it incorrectly, or actual duplicate numbers being

issued by the Social Security Administration. To reduce the possibility of file mix-ups, credit bureaus use one of two ways to create brand new files.

### How the Bureaus Make New Files

The first method depends entirely upon the Social Security number. A person of the same name who uses a different Social Security number will automatically create a new credit file for himself. The second system relies on a code made from parts of the personal identification information. If this code matches an existing credit file, then a new file will not be created. We will examine how the second method works, because if you can generate a new file on this system, the same strategy will work on the other system as well. Once you start a new credit bureau file, it is the one that creditors will judge you by and the one they report your credit history to.

You must create this dummy credit file carefully because the credit bureaus use fraud detection programs to catch this sort of activity. We will talk more about fraud detection software in a later chapter. First, let's look at how the credit bureaus create a new file and what the personal code consists of.

The first part of the code consists of up to the first ten letters of your last name. After the computer brings up these letters of the last name, it will look for an existing match. If it does not find an existing match, a new file will be created. Needless to say, last names are common enough that a match is almost always found. When a match is found at this point, the computer then takes the first three letters of the first name and adds them to the previous last name letters. If no match comes at this point, a new file is created. Most first names are common enough that a match will still be found. At this point

the computer adds the middle initial, and tries the same matching technique again. If a match is found it will then check the marital status by adding the spouse's first initial to the string of letters.

This process continues. After the spouse's first initial will come the first five digits of the house number, then the first letters of the street name, then the zip code, and finally the previous address. If everything still matches an existing file, the computer checks the Social Security number. If the Social Security number is different, the credit bureau will open a new credit file, but a fraud warning will appear on it. The bureau assumes that if everything matches an existing file except the Social Security number, someone is trying to pull a fast one.

Many people falsely believe that by just changing the Social Security number and nothing else they can create a new file. That method only works on the first new credit file system mentioned earlier. You can not rely on your credit bureau using the Social Security number system anymore. Even if they use it now, they will probably switch to this more elaborate coding system soon.

### Creating a New You

To create a new file in your own name, you will first need to get a new mailing address. You cannot, however, use a mail forwarding service for this purpose. Most of the credit bureau anti-fraud software programs will detect the address of most mail services in a given area. To get your new address, you must use a secretarial service or an office rental service. It will cost a little more than a mail drop, but it avoids problems.

The reason credit bureaus do not flag these secretarial services is that many legitimate companies use them. For example, if a company must keep only three or four people in

a region at any time, they will often rent a packaged office or packaged secretarial service. This makes more sense than to spend a lot of money on a full time office. Secretarial services, fax lines and other services are available on an as-needed basis.

The previous address you use should not be one where you really lived. You could safely pull a previous address right off any apartment complex.

You don't need to make up a new last name unless it is a very rare, one-in-a-thousand name. You will, however, transpose your first name with your middle name. Your middle name now becomes your first name. Next, you will make up a new Social Security number. A list of representative number series is given in Appendix Six. And finally you will get a new telephone number in the name where your middle name is now your first name. You will now be able to create a new credit file.

### Opening a New Credit Bureau File

Go to a credit bureau in your area and ask to see your credit report. They will not have an existing file because of your new name and address information. You will then receive a credit report that is blank except for the basic personal information that you provided to get the report. With this simple request, the credit bureau has now opened a brand-new, blank credit file on you. You have created a clean slate!

From now on, when you apply for credit anywhere, you must give the same personal information you gave the credit bureau: your new name, address, previous address, Social Security number, etc. Then it will be this new, blank file that the creditors will see on your credit report. It should be easy to

see that if you are creating a new identity from the ground up, you will also create a new credit file using this method as well.

### **Establishing a New Credit History**

Once your new file is in place you are now ready to get credit. If you are working at a job that creditors consider credit worthy, the procedure is very easy. First, open up a checking and savings account at a bank. Be sure to give the same mailing address you gave the credit bureau. The next step is to open a savings account at a local credit union. Once this has been done you will want to write away to banks that offer a secured credit card program. A list of several of these banks appears in Appendix Two. You can find others through advertisements in tabloids or magazines.

These banks agree to give you a MasterCard or VISA card in exchange for you making a deposit of at least \$100 in an interest-bearing savings account. Your account is frozen, so you can't touch it as long as you have the credit card. Your credit limit may be as much as five times the deposit amount, depending on which bank you deal with. Many of these banks don't do a credit check, and others only require that there are no bankruptcies on your credit file. They also issue cards to people who have no credit history. The VISA or MasterCard account will appear on your credit file like any credit card account. The only one who will know it is a collateralized card is the bank that issues the card.

The next step in your credit repair course is to accumulate about \$750 in your credit union savings account. After you have done this, ask to take out a \$500 loan against the account. Five hundred dollars of your savings will be frozen until the loan is paid off. The credit union will be happy to make the loan because it is secured. The most they will do is check to

see that you are still employed. Pay off the loan in two installments. You will then have a second credit reference on your new credit file, in addition to your secured credit card.

If you are working in a job that credit grantors don't like, such as a waiter or musician, or if you are creating a new identity, you will need to backstop your new credit report once further with a desirable employment reference. This is easily done by contracting with another office rental or secretarial service. They will answer the telephone in your "company" name and verify your employment as you have instructed them. Following this program, within three months you will be able to obtain credit for almost any purpose.

### **Chapter Seven**

### **Anti-Fraud Programs**

Both creditors and credit bureaus have various means of detecting fraudulent credit applications. In fact, the science of detecting fraud is so advanced that there are several computer programs that banks, credit bureaus and other interested parties can buy that help them detect fraud. These programs are based on an analysis of accounts that have gone bad, focusing on common characteristics on the original application forms that point to problems. In this way, these programs don't only look for fraud, but also for bad credit risks.

### **Creditor Anti-Fraud Programs**

Anyone who accepts credit applications probably has some system for verifying the information they contain. Banks and large retailers have found that the cheapest way to verify the information is to run it through a fraud-detecting computer program. These programs are designed to enable merchants to catch people trying to obtain credit cards fraudulently through false information on the credit application. Using the software

is cheaper than personally verifying all the information on the credit application. It is also cheaper than buying a credit report from a credit bureau, which is never done until after the internal fraud detection system is used.

Here are some of the things this software looks for. All bank credit cards listed on the application should start with a four-digit number assigned exclusively to the issuing bank. This number is called the bank identification number. All Master-Cards start with the digit "5" and all VISA cards start with the digit "4." Oil company credit cards have a common numbering system as do travel and entertainment cards, such as Diners Club and American Express.

There are many other items on the credit application that these fraud detection programs look for. We will cover them in detail in the next chapter, where we will go through a credit application entry-by-entry. For now, let's look at what the credit bureau can use to detect fraudulent applications.

#### **Credit Bureau Anti-Fraud Software**

Credit bureaus have come up with a number of detection programs to trip up people who are trying to leave a poor credit history behind. The credit bureaus have introduced computer software programs into their databases in an attempt to detect fraudulent credit applications. When the software discovers a potential fraud, the credit report is tagged with a notation that something is amiss, alerting the creditor to possible fraud.

One of these software programs is called HAWK. Another is called Checkpoint. The way these programs work is by looking for a certain common characteristic of fraudulent accounts. For example, the HAWK program will check an applicant's address against a list of mail forwarding services. If

there is a match, the credit report will include a warning of possible fraud. The HAWK program will also check to see if the employer telephone number given is legitimate, or if it is the number of a pay phone. It will also check to see if the employer address is a mail receiving address. If these items are not legitimate, then the warning will be placed on the credit report. HAWK is one of the anti-fraud programs used by Trans Union.

Another credit bureau has a program called Sherlock which attempts to find the last address of serious criminals wanted by local police departments. For about \$100 per name, Sherlock will search the credit bureau's database to find the wanted person.

People attempting to escape a bad credit history usually try a few predictable ploys. One of them is to transpose their middle and first names, while leaving everything else the same. This does not work because the credit bureau computer matches many more personal identifiers than just the name. If only this one item is changed, the computer will merge this into the pre-existing bad credit report. A simple attempt like this will often result in an alert being flashed across the face of the credit report telling the potential creditor to be careful. People also try the same thing by changing only the Social Security number and nothing else. As we have already seen, this strategy will frequently fail.

Let's look at Experian's fraud detection system. When a credit report on Experian's system detects a person attempting to leave behind a poor credit history, it flashes a CHECK-POINT warning across the screen. When the name variation or Social Security number change is attempted, the checkpoint message tells the creditor exactly this. One checkpoint message will indicate that the name given is a potential alias, another will tell the creditor that the Social Security number given is not accurate.

The TRANS-ALERT anti-fraud system, used by Trans Union, works a little differently. It is designed to look for small differences between the information given on the application and information the bureau already has on file. For example, some people seeking to jettison a poor credit history believe that by using a different address they can leave their old credit file behind. The TRANS-ALERT system will flag the new address and tell the creditor that it does not match what is now in the file.

These two systems are designed to detect the obvious. Some applicants have attempted to go much further than this, however. For example, one ploy is to use the address and telephone number of a commercial mail receiving service. There was a time when this would have been enough to separate a person from their old credit history, but no longer. Because so many people have attempted to do this, all of the major credit bureaus have compiled listings of mail forwarding services and their telephone numbers. The same is true of telephone answering services. One of these addresses will immediately cause a warning to be flashed across the credit report.

Another step the credit bureaus have taken to protect themselves is to compile a list of all Social Security numbers of deceased people, and to find out from the federal government which series of Social Security numbers are actively being issued. This cooperation between the Social Security Administration and the credit world reached a peak in 1989 when it was reported that the Social Security Administration was routinely verifying Social Security numbers for credit bureaus. The resulting uproar led to the dismissal of the then head of the Social Security Administration and a ban on this practice of wholesale number verification.

Another factor which sets off these credit bureau's antifraud programs, is a lot of credit inquiries in a very short period of time. All credit bureau systems will flag an excessive

## Chapter Seven Anti-Fraud Programs 65

number of inquiries, and this will be flashed across the face of the report. This is because people with bad credit frequently use a scattershot approach, applying to many creditors over a short period of time hoping that one application will be approved.

These are some of the internal programs credit bureaus use to catch the poor credit applicant trying to leave his past behind. But this is only half of the picture. To obtain credit you must not only get past the credit bureau, you also must get approval from the creditors themselves. In the next chapter, we will go through a credit application one step at a time to see what creditors are looking for.

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## **Chapter Eight**

# Step-by-Step Through the Credit Application

If you can successfully create a blank credit report, and you can induce a creditor to verify your employment and other references, the odds are very good that you will be approved for credit. We need to go through each item on a typical credit application and see what the creditor is looking for. The creditor will be looking for any inconsistencies or irregularities on the form. Any one variation is not likely to trigger the rejection, but a combination of several unusual entries may be cause for rejection.

#### **Address Information**

The first part of the application deals with the address information. Your address should always read as a street address to a house or have an apartment number specified. Frequently, when people use a mail forwarding service, they use a suite number to avoid writing a box number. Creditors are aware of this and the use of a suite number on a single-

family street address may trigger the fraud detection software. The address should be complete, including zip code. Absence of a zip code can trigger these programs, and an incorrect zip code will almost certainly cause suspicion. What person does not know his or her correct zip code?

#### Name and Professional Titles

The next part of the application to look at is the name and title. You must pay particular attention to these if you have created a new credit file as a professional person. There are certain conventions that professional people use when filling out their names and titles on applications or forms of any type. Most of these are common sense. For example, medical doctors do not write just the abbreviation "Dr." before their name; they almost always write "M.D." after their name.

The same goes for nurses and other professional medical personnel. Their academic or professional qualifications will almost always follow after their name. Engineers will often use the abbreviation "R.E." after their names to indicate they are licensed professional engineers. Nurses will write either "R.N." or "L.P.N." after their names. This also applies to professionals such as accountants, counselors, lawyers and others with academic degrees below the Ph.D. level. You need to pay close attention to details.

### **Social Security Number**

The next item in the personal information section is the Social Security number. Avoid the obvious mistakes. A Social Security number has nine digits, and no Social Security number starts higher than six, and no Social Security number has the middle two digits zero zero. Refer to the chart in

## Chapter Eight Step-by-Step Through the Credit Application 69

Appendix Six for more information on how the Social Security number should look for each state.

#### **Date of Birth**

The next item is your date of birth. Your date of birth should be consistent with the background you are portraying. This may seem obvious, but many fraudulent credit applicants are caught on this point. If your background is that of a college graduate with five years work experience, your age should reflect this. Your age on the application should be at least twenty-seven. The programs supplied to credit grantors by the major bureaus provide age profiles that a creditor can check for a variety of careers.

#### **Previous Address**

After these items, most applications will ask for a previous address. This address should be a real address, complete with zip code. Do not be tempted to use a mail drop address for this address. One way to find a suitable previous address is simply to consult the telephone book and pull the name of someone at random from the book. Use this person's address as your previous address. Make sure that you then consult the zip code directory to ensure that you have the correct zip code to match this address. This is a very important detail. Frequently, the applicant will have carefully prepared the rest of the application, but not have given any thought to the question of a previous address. Once again, it is the small details that the fraud programs look for.

#### **Drivers License Number**

The next spot to concentrate on is your drivers license number. Most credit applications will ask for your license number and state of issuance. Care must be exercised here as well. Most states use some simple coding system to assign license numbers. The remainder issue a simple sequential license number, or use the Social Security number as the license number. The creditor does not attempt to actually verify the number. What he attempts to do is to make sure that the number matches up to the state system for numbering licenses. If it does not, this will be another warning sign that can cause rejection.

Most large creditors have a copy of the book I.D. Checking Guide. This book provides an illustration of every state's drivers license, along with the numbering system they use. I recommend you obtain a copy, if this item is difficult for you.

### **Employment History**

The next part of the credit application we want to look at is the employment history and salary. Once again, you must pay close attention to ensure that your application falls within the accepted norms for the occupation that you have chosen. We should digress a moment and look at the whole area of employment and how creditors analyze it.

Creditors look at three primary facets of a person's employment. The first is what type of an occupation a person has. Creditors prefer a professional person or someone who works in a skilled trade. They prefer this type of occupation because it indicates long term job stability and increasing earning capacity over the years. Failing this, creditors prefer unionized workers who are employed by well established

## Chapter Eight Step-by-Step Through the Credit Application 71

firms. On the other hand, a non-unionized worker employed at a growing company is preferable to a unionized employee at a factory with a history of layoffs.

Certain occupations are a no-no to creditors. Occupations such as waitresses, motel employees, etc., turn off creditors because of the high turn-over in these jobs. For the applicant with an established credit history, the type of occupation is not so important. But to the blank slate credit seeker, it is critical. Lists of favorable and unfavorable occupations appear in Appendixes Three and Four.

Most credit applications will ask for employer name, address, work telephone number, supervisor name, your job title, years of service, and your income. Your employer address should be a street address. I suggest that you arrange this through a secretarial service if you cannot provide a legitimate reference. What is most important is that your income match the range of someone typically employed in the industry with the same amount of experience. These figures can be obtained quite readily.

For professional occupations you can find average compensation levels from the appropriate professional society in your state. For workers at a unionized corporation you can obtain the salary scale by calling the union local that represents the workers at the plant concerned. Other occupational salary levels can be best ascertained by making inquiries to businesses that employ people in your stated occupation.

You need to pay close attention to the amount you write down for your salary. Never write a number that ends in zeros. For example, a salary of twenty thousand dollars per year seems odd. Consider your own income or those of people you know. People have wages that on a yearly or monthly basis end in funny amounts. Make sure the salary you list does the same. Another trap on some credit applications is they ask for

your after tax income and not your gross income. Creditors that request after tax income have withholding tables and know how much net income a typical earner will have. You can do the same by obtaining a tax withholding table from Uncle Sam.

#### Financial Information

The next part of the application will deal with your financial status. This section must also be completed with close attention to detail to avoid triggering fraud programs. This section will ask such questions as the name and address of your financial institution, what type of accounts you have, their numbers and balances.

Let us look at what creditors actually do with this information. In general, creditors do not call your bank to verify these accounts. That would be too expensive and time consuming, and often banks will not release any information about an account in good standing to outside inquiries. Rather, the creditor will use fraud detection software to look for certain common patterns.

All creditors have access to a book that lists the names and addresses of all financial institutions in the United States. Most creditors also know which banks serve a given region. So the first caution is to give the name of an actual bank that operates where you claim to be living. The second place to be careful is in the account numbers you use. Banks and financial institutions generally issue seven digit account numbers. Look at your own checking and savings account numbers before you fill out the application. Use these as a guide.

#### **Landlord Information**

Landlord data is the next section you must deal with. Once again this can be handled relatively simply. What creditors are looking for here is a lack of information. Often new credit seekers will leave this section blank, hoping to slip through the net. The answer is very easy. If you are using a secretarial service as your landlord, simply provide the name and address of the service. What creditors are looking for is negative information. Most landlords do not report tenant payment histories to the credit bureau unless they are negative.

### **Credit History**

The next section involves the credit history itself. This section must be filled out very carefully, and it can also be manipulated to your advantage. Let's see how to handle this section.

First of all, you want to be able to list something under this section. There are many credit accounts a person could have that do not report to the credit bureau. One example is book and record clubs where you order merchandise by mail and pay for it later. These are credit transactions because the merchandise is shipped first and you are billed later. These clubs do not report to credit bureaus as a general rule. So you can include these as credit references and not have it be suspicious that they don't appear on your credit report.

Another type of credit account you can set up is through mail-order catalog shops. You will see advertisements from time to time in magazines that say something like "gold card with two thousand dollar limit available with no credit check." The way these operations work is you must pay an "account establishing fee" of between twenty and one hundred dollars.

Once you have done this they will send you a catalog and a credit card that has your account number on it. When you order from the catalog, you provide this number and the merchandise is shipped. You have the option of extended payments over time with a finance charge, or one payment in full for the balance. These companies will agree to provide you with a written credit statement after a few months of good payments.

You may be wondering how they can afford to ship merchandise to people they do not have any information on? First of all the quality of the goods in the catalog is very poor: cheap calculators, watches, radios, etc. The prices are usually three times as high as a local discount store, and the shipping and handling charges come on top of this. The shipping charges must be paid for in advance, and often these charges alone account for more than the true value of the goods ordered. Between the cost of the catalog and the charges for shipping and handling, the company has already earned a healthy profit before the order. The payments are pure profit. If a person defaults a few months down the line, the company has already made its money.

These companies can be listed on a credit application as credit references. Even though they do not ordinarily report accounts to the credit bureaus, they will provide you with a letter that you can enclose with your application verifying your account.

## **Chapter Nine**

## New Ways to Get Back in the Credit Game

It is now easier for an individual with bad credit to get back into the credit game. Many lenders have discovered that the so called "subpar" credit market can be very profitable. These individuals will pay high-interest rates and fees for the privilege of using credit again.

These lenders will usually lend to people who have a bad credit history, but are not the current focus of any ongoing litigation. A person whose bankruptcy petition has been discharged is a prime customer of these lenders. The lenders know that this person cannot go bankrupt again for 10 years, and also has no current bills because they have all been discharged by the court.

A person who has a number of old accounts that have all been charged off will also be a potential customer of one of these firms.

These lenders will want proof of a steady source of income, proof of home address and telephone number, and a reference that they can contact. They will also want security. In the case

of credit cards, this means a savings deposit must be made, but even this is becoming more competitive.

When the first edition of this book was written, most secured card issuers wanted a savings account equal to or greater than the credit line issued. Now many banks accept a savings deposit as low as 20 percent of the amount of the credit line based on the lender's analysis of the applicant's credit report.

A whole host of new banks are now involved in this market, in addition to the ones listed in Appendix Two. Many of the mainstream banks now issue these cards. Your local bank may well be one of them. Some banks, such as Bank of America, issue secured cards with no annual fees and competitive interest rates. Shop around.

Used car dealers and furniture stores are another way to get back into the credit game. As long as you have proof of an income, and are not the subject of current litigation, they will work a deal with you.

Another way to get in good with the credit system is via the special credit card offers extended to college students. This works particularly well if you have created a new, blank credit file. You will be able to obtain all of the major credit cards on the same terms as people with good credit. The limits will be low, usually between \$500 and \$1000, but you can apply for a limit increase after a year of on-time payments.

You will need to submit a copy of your student identification card or paid tuition bill. These documents are easily obtained. Simply register for one class, and you will receive the card. You will find solicitations for card issuers that cater to students on any college campus bulletin board, or at the campus bookstore.

The Internet now offers a way for an individual to apply for credit cards, and just generally stay informed about up-to-the-minute changes in the credit system. All three of the major

#### Chapter Nine New Ways to Get Back in The Credit Game 77

credit bureaus have web sites, and so do a number of major banks.

The following two web sites offer excellent insider information on credit bureaus and links to other useful sites:

www.pages.prodigy.com/id/vcr/vcrhtml

This site is known as the Victims of Credit Reporting site and contains comprehensive up-to-date information about all three bureaus, the Fair Credit Reporting Act and pending litigation and lawsuits.

#### www.PIRG.ORG/CONSUMER/XFILES/PAGE6.HTML

This site is run by the U.S. Public Interest Research Group, a pro-consumer lobbying group founded by Ralph Nader. A lot of excellent information here, including upcoming legislation that may not be friendly to consumers fighting disputes with credit bureaus and creditors.

You can also get information on credit cards and credit repair in general by going to a search engine such as Lycos or Yahoo, and entering in these and related search items.

### **Chapter Ten**

# Credit Fraud and Identity Theft

Credit fraud has grown exponentially since the first edition of this book was published. Each of the three major credit bureaus receives hundreds of calls a day from consumers who have become victims of credit fraud, and its related offense, identity theft. Let us see how credit fraud and identity theft are carried out.

The fastest growing type of credit fraud in the United States is something known as "true name" fraud. In true name fraud a person obtains enough information about another individual to falsely apply for credit in that person's name. Most of the time, the criminal applies for "instant credit" at a store, and uses a piece of false identification to back up the application.

The credit bureau returns the report within seconds to the store's credit department, and minutes later, this individual has a credit line of several thousand dollars he can use at the store.

The thief then purchases big-ticket items at the store right away and exhausts the credit line. The victim does not know a thing about it, until a week later he receives a bill for items he never purchased. The thief is long gone. In fact, when an individual with good credit is found, the credit thief will hit four or more stores the same day. The odds are excellent that all of the applications will be approved because three different bureaus are being consulted, so all four inquiries will not show up on one report. (The credit thief will make sure this is so by finding out in advance which credit bureaus are consulted by the different stores.)

The other reason this works so well is that stores that offer instant credit frequently charge very high interest rates on their credit cards. These accounts are very profitable, even with those that are written off as being fraudulent. Store managers are frequently under pressure to approve applications to increase sales.

How does the true-name credit thief get the information to impersonate you? Quite often from the credit bureau itself. The credit bureaus do a big business selling information from credit reports that is not protected by the Fair Credit Reporting Act. The only information on the credit report that is privacy protected is the actual credit data that reflects the account and payment information.

The information at the top of the credit report, called "Header" data in industry jargon, has no privacy protection whatsoever, and can be sold to anyone. This header information consists of the following information:

Full Name
Birth date
Social Security Number
Current and Previous Address
Telephone Number
Employer

This is just the information an individual needs to falsely apply for credit in your name. If a credit thief can locate a

former or current address where you have applied for credit in the last seven years, he can obtain your Social Security number.

The bureaus call this report an "address update" report or unknown Social Security number lookup report. Once the thief has the Social Security number from this report, he can then run a Social Security number sweep through all three credit bureaus. This search will return all of the header data listed above. How much would it cost to run these two reports? Less than \$50.

Once the credit thief has this information, he can fill out a credit application with the correct information. All he needs now is a piece of passable fake I.D., which is easily available from any number of sources. Armed with the fake I.D. and your personal data, he is ready to strike at any store offering instant credit.

Another type of credit fraud involves creating a paper person out of thin air, and creating a blank credit file for this individual. Then, special-qualification credit cards are applied for, such as MasterCard and VISA cards issued to college students without a credit history. The thief spends about a year building up a solid credit history for this nonexistent person. He then obtains some high-limit credit cards, maxes them out, and then stops paying the bill. By the time the creditors figure out months later what has happened, the nonexistent person has disappeared. There is no one to sue or take to court.

Identity theft is a more elaborate version of true-name fraud. In identity theft, the fraudster will attempt to duplicate your entire identity. He may open bank accounts in your name. An apartment might be rented using your name, or a cellular telephone hooked up. A new car might even be financed.

The identity thief will use your identity for as long as it suits him, and then move on, leaving a stack of unpaid bills. A few months later you will start receiving irate calls from creditors. The only way to prevent your credit information from being accessed by a credit thief is to regularly review your credit report on an annual basis, and also to have a fraud block inserted on your credit report. A fraud block will require a creditor to contact you personally by telephone at home or work before approving any new credit.

The downside of this is that you will not be able to avail yourself of any instant credit because you will not be at home to accept the verification call. On the other hand, a credit fraud artist who tried to use your identity would be caught right away, because when you answer the telephone at home, you can inform the creditor that the person applying for the instant credit in your name is not you.

## **Chapter Eleven**

# Becoming a Credit Card Millionaire

Several years ago on late-night television there was one of those 60-minute commercials that told how a person could become a millionaire using credit cards. Essentially, the upshot of the program was that a person could accumulate unlimited numbers of credit cards, and then by staggering the payment due dates, have up to six months free credit on the cards. Although this method is no longer workable, it is still possible to become rich using credit.

By accumulating, let's say \$40,000 in credit card credit lines, you allow yourself great flexibility. Perhaps you would like to purchase a new car without having a lien placed against the title. By taking cash advances on your credit cards you could do just that. Perhaps you want to start your own small business and lack capital. Most banks will not lend money to start new ventures. Or perhaps you would like to purchase some property free and clear. Now you can. Regardless of what it is, it can be possible. The only drawback is that the interest rates charged on credit cards are so high, but later in

this chapter, I will show you how to convert that debt into low-interest, long-term debt that you can manage much more easily.

#### Start With a Blank Slate

We will assume that you have used the knowledge in this book to create a clear credit history for yourself and that you have obtained one secured VISA card and the credit union loan mentioned before. Once again the secret lies at the credit bureau.

One of the laws regulating credit bureaus says that an individual has the right to dispute at any time any entry on his credit file. When this is done, the credit bureau must furnish written verification to the individual concerned of the existence of the debt. If this isn't done within a "reasonable period of time," usually 60 days, the credit bureau must remove the entry from the credit report. Even if verification arrives later on, the credit bureau cannot reinsert the entry.

This is relevant because, as a way to prevent people from obtaining large amounts of unsecured credit, credit bureaus began keeping records of all credit report inquiries. Usually a credit report will list all credit inquiries within the last year. If a potential creditor sees a lot of inquiries within a given period of time, he will automatically deny credit.

This is how people who have no previous credit history can destroy their chances of getting credit. They apply time after time, not aware that each application is slowly destroying their ability to get credit later on. The question in each later creditor's mind is, "Why should I issue credit when the others did not?" Usually more than five inquiries within a year's time is enough to spoil any further credit extensions. So how do

you get credit without having the inquiries show on your report?

### **Binging and Purging**

The first step after you have gotten a secured credit card and a credit union loan is to apply for one of those very high-interest rate credit cards offered by the big national banks. You see their advertisements in airports, hotels, and restaurants all over the country. You should apply for at least two of these cards. The reason for this is that it's easier to get a high-interest credit card than a low-interest one. The high-interest rate combined with the annual fee allows the card issuer to lower its credit standards. The higher interest and annual fees ensure that the cards are very profitable even with the higher amount of losses incurred. With your clean credit report and two good credit references, these banks will gladly extend you a credit card with a substantial limit of \$1,500 to \$2,000. After you have these two cards, you must purge your credit report of these inquiries.

The law says you can write to any office of the credit bureau and request verification of the items on your credit report. So you would write to offices of the credit bureaus located far away from the creditors involved. A large bank will not waste time verifying an inquiry on an account that is paid up. For any inquiries that didn't result in credit being given — a rejection — the chances are slight that the bank will verify the inquiry. This method can be used time and time again to clean your credit report. The form letters for disputing an inquiry are shown in Chapter Five.

Some pointers you must keep in mind when doing this are that you must contact offices of all three major credit bureaus. Cleaning up your file at one credit bureau does not get a clean file at another credit bureau. Some times of year are better for doing this than others. This method works especially well in late October or early November because credit grantors heavily solicit new accounts at this time. It is almost guaranteed that the credit bureau's request for verification will be tossed in the garbage. Early November is also an excellent time to apply for credit cards, as lending standards are very relaxed to get people to go into debt for Christmas.

So you can proceed in this fashion to collect credit cards with high limits, then have the inquiries purged from your credit report, then go after more cards, then more purging, and on and on. Eventually, you will have access to tens of thousands of dollars in cash, possibly even hundreds of thousands. But it will be very expensive cash.

### **Converting to Low-Interest Debt**

Once you have obtained this large amount of credit card debt, and purchased whatever you wanted, you will want to replace it with manageable long-term debt. Let us assume that you purchased a new car for \$11,000 and some bare land for \$25,000. These are now assets. With these assets and your excellent credit report, you could go to banks and apply for unsecured personal credit lines. These credit lines have much lower interest rates than credit cards and allow you to extend repayment over a longer term. Normally they are only available to the most credit worthy customers; you are one of the most credit worthy customers.

Usually these credit lines are from \$2,000 to \$5,000 apiece. You would then use credit lines to pay off your high-interest credit cards. You could then shop around for very low-interest credit cards and get these to replace the high-interest ones.

## Chapter Eleven Becoming a Credit Card Millionaire 87

Now your debt is even more manageable. This is especially so if you have started a new business with your credit.

You will still have to pay off all your debts some day. But we live in a society where those who can least afford it must pay the highest rates for credit, and those who don't need credit can get it for next to nothing. The secret to getting ahead in this society is getting access to low-interest capital. Using the method described above, you can accumulate a huge amount of capital to invest, and then convert all your debt to the low-rate, inexpensive variety. Then you will always have access to low-interest credit that can aid you in whatever you want to do.

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## **Appendix One**

## Flowchart for New Credit

- **Step 1.** Read this book.
- Step 2. Request a copy of your current credit report from credit bureaus in your area.
- Step 3. Open an alternate mailing address at a secretarial service or office rental service.
- Step 4. Create a new dummy credit file using the procedure outlined.
- Step 5. Request a copy of your new credit file to verify its content.
- Step 6. Open up new checking and savings accounts based on the new information contained in your new credit file.
- Step 7. Join a local credit union and open up a savings account.

#### **Reborn With Credit**

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- Step 8. Apply for a secured MasterCard or VISA card account.
- Step 9. Apply for a loan at a credit union backed by your savings account as collateral.
- Step 10. Pay off credit union loan account in two months.
- Step 11. Apply for store or oil company charge accounts.

### **Appendix Two**

# Secured Visa and MasterCard Account Programs

Capital One Secured Card Service PO Box 85004 Richmond, VA 23285

First Consumers National Bank 9300 SW Gemini Drive Beaverton, OR 97008 1-503-530-8200

First National Bank of Brookings PO Box 6000 Brookings, SD 57006

First Premier Bank PO Box 5114 Sioux Falls, SD 57117

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Providian Financial PO Box 194425 San Francisco, CA 94119

Sterling Bank 3261 Fort Street Lincoln Park, MI 48176 1-313-383-4000

## **Appendix Three**

# Employment Not Liked by Credit Grantors

Actors, unless well-known
Bartenders
Freelance writers
Local police officers
Motel or hotel employees, unless management
Restaurant workers, unless manager
Taxi drivers
Musicians, unless with well-known orchestra
General laborers, unless at a unionized company
Students, unless applying under a student program
Most self-employed people
Domestic workers
Barbers and beauticians
Non-degreed hospital workers

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## **Appendix Four**

## Occupations Liked by Creditors

Engineers with degrees

All types of technicians that require two years of higher education

**Physicians** 

Registered nurses

All other professional allied health workers

Federal government employees

State or municipal government employees

All university teaching faculty and university support staff

Professional pilots with major airline or with regional airline

Unionized general laborers or factory workers with major company

Secretarial and data processing employees

Business management professionals

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## **Appendix Five**

# Beating Credit Scoring Systems

Every bank uses a slightly different credit scoring system. By following the guidelines given here, you will be able to pass most systems.

- 1. Always have a telephone number listed in your name, or at least claim to. Often the number provided is not verified.
- 2. Always indicate that you have lived at your current residence for at least three years.
- 3. Never list more than three dependents.
- 4. Always show at least four years employment with your current employer.
- 5. Always show at least five years or more at your previous address, if application asks about that.
- 6. Always make sure your monthly payments (not including rent) total less than 25% of your gross income.
- 7. Always list both a checking and savings account.

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## Reading Crodic Scoring

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## **Appendix Six**

# Social Security Numbering System

Alabama	416-424
Alaska	574
Arizona	526-527
Arkansas	429-432
California	545-573
Colorado	521-524
Connecticut	040-049
Delaware	221-222
D.C.	577-579
Florida	261-267
Georgia	252-260
Hawaii	575-576
Idaho	518-519
Illinois	318-361
Indiana	303-317
Iowa	478-485
Kansas	509-515
Kentucky	400-407

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Louisiana	433-439
Maine	004-007
Maryland	212-220
Massachusetts	010-034
Michigan	362-386
Minnesota	468-477
Mississippi	425-428
Missouri	486-500
Montana	516-517
Nebraska	505-508
Nevada	530
New Hampshire	001-003
New Jersey	135-158
New Mexico	525 & 58
New York	050-134
North Carolina	232
North Dakota	501-502
Ohio	268-302
Oklahoma	440-448
Oregon	540-544
Pennsylvania	159-211
Rhode Island	035-039
South Carolina	247-251
South Dakota	503-504
Tennessee	408-415
Texas	449-467
Utah	528-529
Vermont	008-009
Virginia	223-231
Washington	531-539
West Virginia	232-236
Wisconsin	387-399
Wyoming	520

#### Appendix Six Social Security Numbering System 101

#### **Additions**

Arizona	600-601
California	602-626
Florida	589-595
Mississippi	587-588
New Mexico	585
North Carolina	232

#### Miscellaneous

Railroad Ret.

Virgin Islands	580
Puerto Rico	580-584
Guam, Samoa &	
Pacific Territories	586

700-728

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### **Appendix Seven**

## Additional Sources of Information

Reborn In The U.S.A., Third Edition, by Trent Sands Published by Breakout Productions P.O. Box 1643 Port Townsend, WA 98368

Credit: The Cutting Edge, by Scott French Published by Paladin Press P.O. Box 1307 Boulder, CO 80306

Credit Secrets, by Bob Hammond Published by Paladin Press

**Credit Mechanic**, by J. Arlene White Published by Paladin Press

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#### Other Titles of Interest:

- UNDERSTANDING U.S. IDENTITY DOCUMENTS, by John Q. Newman. The most detailed examination of identity documents ever published. This guide is a must for all new identity seekers and anyone interested in identification and alternate I.D. This book covers birth certificates, Social Security cards, drivers licenses and passports. It shows how each document is generated and used, and explains the strengths and weaknesses of the agencies issuing them. 1991, 8½ x 11, 207 pp, illustrated, soft cover. \$27.95. Order Number 61129
- SCRAM, Relocating Under A New Identity, by James S. Martin, Attorney at Law. Have you ever watched a ship go out to sea and wished you were on it, leaving your problems behind? You're not alone. Many people would love to make a fresh start, in a new town, under a new name. But how? This book will answer all your questions about relocating under a new identity. Covers: Divorce, Bankruptcy, I.D., Insurance, Travel, Your chances for Success, And much more. Also included are 10 real-life case histories that show problems and opportunities for identity-changers. 1993, 5½ x 8½, 83 pp, soft cover. \$12.95. Order Number 61138
- THE HEAVY DUTY NEW IDENTITY, Revised & Expanded, Second Edition, by John Q. Newman. Learn what it's really like living under a new identity. In this updated and expanded hard-hitting book, you'll meet undercover cops, federal witnesses and fugitives from the law who've tried living the lie of an assumed identity. Newman provides a detailed program for establishing a new identity that will not fail. When there is no other choice get The Heavy Duty New Identity. 1998, 5½ x 8½. 112 pp. soft cover. \$12.95. Order Number 61116
- OUR VANISHING PRIVACY, And What You Can Do to Protect Yourself, by Robert Ellis Smith. This shocking book reveals how much strangers know about your private life. Someone's collecting information about your health, your finances, your love life. And they don't have your best interests at heart. Our Vanishing Privacy reveals the secrets of the snoops what they know and how they get their information and tells you what you need to know to fight back. Smith, the publisher of the Privacy Journal, is one of the most outspoken advocates of privacy in the world. 1993, 51/2 x 81/2, 136 pp, soft cover. \$12.95. Order Number 10060

You can get these books at your favorite bookstore or contact any of our distributors:

Baker & Taylor 7900 Edgewater Drive Oakland, CA 94621 1-800-999-4650

Loompanics Unlimited PO Box 1197 Port Townsend, WA 98368 1-800-380-2230

Homestead Books 6101 22<sup>nd</sup> Avenue NW Seattle, WA 98107 1-800-426-6777

Last Gasp of San Francisco 2948 20<sup>th</sup> Street San Francisco, CA 94110 1-415-824-1836

Marlin's Book Distribution 19741 41<sup>st</sup> Avenue NE Seattle, WA 98155 1-206-306-7187



### Reborn With Credit Revised and Expanded Second Edition

When your credit report reads more like a horror story than a fairy tale, it's time to pick up **Reborn With Credit**.

Author Trent Sands (*Reborn in the USA*, *Reborn in Canada*, and *Reborn Overseas*) explains in clear detail how the credit system works — and how to get it working for you. This second edition outlines changes in the credit industry, how to most effectively use the Internet, and how to remove negative information from your report.

If you have bad credit history, you don't need to spend thousands of dollars at a credit repair clinic for a makeover. *Reborn With Credit* not shows you how to clean up your rating, be how to access tens of thousands of dollar new cards and how to convert high-interest card debt to manageable, low-interest loans.

And with a new beginning, you're more like get a happy ending. *Reborn With Credit* show you how.

